

PROPOSED TAX LOOPHOLE CHANGES

	Short Title	Description	FY08 Estimated Tax Revenue
1.	Combined Reporting	This provision curbs the practice of businesses shifting income to out-of-state subsidiaries and avoiding Massachusetts taxes.	\$136 million
2.	“Check the Box:” Conform Entity Classification Rules to Federal Laws; Tax Business Trusts as Corporations	“Check the Box” prevents a corporation from claiming one status for state taxes and another for federal. This change would require businesses to conform their corporate identity between their state and federal tax returns (e.g., a company that files as a corporation on its federal return must then file as a corporation for its state return).	\$99 million
3.	Insurance Companies Operating Non-Insurance Business	Currently, an insurance company is only taxed on premiums and not subject to tax on non-insurance revenue. Under this provision, non-insurance businesses run by insurance companies would be subject to the standard corporate tax.	\$14 million
4.	Deeds Excise Avoidance	Massachusetts currently imposes a real estate transfer tax when property is sold. This initiative will prevent corporate taxpayers from placing the real estate in a subsidiary business entity (such as a limited liability corporation) and selling the interest in that entity rather than the underlying real estate.	\$12 million
5.	Room Occupancy Tax – Internet Resellers	Hotel and motel rooms are subject to a state, and in some cases, a local option tax. Internet retail agents avoid paying the hotel/motel tax on the full price of the room as charged to the consumer. Although the consumer pays tax on the higher, retail price, the state only receives the amount on the lower, wholesale price.	\$5.6 million for state \$4.0 million for municipalities
6.	Sales Tax – Captive Leasing Companies	Large, capital-intensive businesses can avoid paying full, upfront sales tax by leasing equipment from a subsidiary affiliate.	\$28 million
7.	Income Tax – Earned Income Credit for Non-Residents	Massachusetts has a refundable earned income credit that is a percentage of the available federal credit. This provision would require the credit recipient to live or work in Massachusetts.	\$2 million